

RFP No. GMTA-057:

Report:

Determining the Net Benefits the NPO
Sector has derived from the 2000 Taxation
Laws Amendment Act

Developing a Comprehensive Typology of
Registered NPOs in South Africa

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ABBREVIATIONS

CBO	Community Based Organization
CSI	Corporate Social Investment
DSD	Department of Social Development
DTI	Department of Trade and Industry
NGO	Non Governmental Organization
NPO	Non Profit Organization
NPP	Non Profit Partnership
SARS	South African Revenue Services
USAID	United States Agency for International Development

1 EXECUTIVE SUMMARY

1.1 Overview

The Non-Profit Organizations Act 17 of 1997 and the Taxation Laws Amendment Act, No. 30 of 2000 was the government's first attempt at creating an enabling legislative and policy environment for the sector. Since the enactment of the above legislation, no attempt has been made to ascertain firstly, the impact on the NPO sector, and secondly whether the intention of the legislation is being achieved.

USAID, through CREA-SA, contracted Umhlaba Development Services to undertake a project to determine the net benefits the non-profit sector has derived from the 2000 Taxation Laws Amendment Act, and to develop a comprehensive typology of registered NPOs in South Africa

Given the paucity of data with regard to both research questions, Umhlaba implemented a methodology to survey a sample of NPOs in order to ascertain actual and projected benefit. A sample survey of 1173 non-profit organizations (NPOs) was utilized to produce the required net benefit analysis. These organizations were randomly sampled from the Department of Social Development (DSD) database of non-profit organizations (registered with DSD), as well as a random sample of Section 21 (non-profit) companies registered with the Department of Trade and Industry (DTI). Based on this survey, financial statements from a sample of 75 NPOs were analyzed to determine the net benefit received from tax registration. This analysis has been extrapolated into the broader sample group of the study. Certain generalizations have been made to the broader population of NPOs in South Africa of the real benefits of the Tax legislation on this sector.

A literature review is included in this report as an overview of work undertaken on the NPO sector in South Africa. This review reflects the dearth of information pertaining to the relationship between NPOs and taxation regulations in South Africa (both past and current). International examples of how taxation laws have impacted on both the net benefit for NPOs as well as the development to the NPO sector are also included.

The development of the research design in this study was partly informed by the most recent study on NPOs by John's Hopkins University. While this study provides a more focused approach to the net benefit of taxation regulation for NPOs in South Africa, the John's Hopkins research is the only substantive study on the NPO sector currently available and therefore provided a number of benchmarks on which to design the current study.

1.2 Key findings

Key findings in this study include:

1.2.1 Typology

The study has examined five independent variables to see their impact on five dependent variables, namely: Awareness of tax regulation; South African Revenue Services (SARS) registration; Type of benefits from registration; Whether the organization received additional funding following the new tax legislation; The size of financial benefit received as a result of registration.

The variables used for the typology are presented mostly as dichotomous:

- ☐ CBOs versus NGOs
- ☐ Rural-based organizations versus urban-based organizations
- ☐ Community-based versus province-based and nation-based organizations
- ☐ NPOs versus section 21 companies
- ☐ Non-affiliated versus affiliated organizations.

Overall, organizations that define themselves as CBOs, organizations working in the rural areas, organizations based at community level, organizations registered only as NPOs, and organizations that are not affiliated with a network, are:

- ? Less likely to be aware of the new tax regulations
- ? Less likely to be registered with SARS
- ? Less likely to have received benefits from their registration, and if they have received benefits, less likely to have received large ones
- ? Less likely to have received increased funding.

For the purposes of analysis this overall category of organization was termed *DSD Typology 2*.

The converse of the above typology is that organizations defined as NGOs, based in the urban areas, operating at the provincial and national levels, registered as section 21 companies and members of networks or coalitions, are more likely to be aware of the new tax regulations, more likely to be registered with SARS, more likely to have received benefits from their registration – and if they have received benefits, more likely to have received large ones – and more likely to have received increased funding. For the purposes of analysis this overall category of organization was termed *DSD Typology 1*.

The study also attempts to synchronize SARS NPO categorization for (a) tax exemption and (b) donor deductible status, the Department of Social Development (DSD) NPO categories, and the Johns Hopkins NPO Study (2002). This typology according to tax benefit status provides an indication of the lack of direct correspondence of categories, although as can be noted from the study, there are very few differences between the three systems of categorization, and they can be assimilated without undue difficulty.

1.2.2 Net Benefit Analysis

The study indicates that most NPOs (76%) are eligible for tax benefits for both Schedule 1 and 2, while 19% are eligible for Schedule 1 only, and 5% of NPOs are not eligible for tax benefit as they fall outside the defined SARS categories.

In order to calculate the net benefit of the tax reform legislation of 2000, the study considered four issues: Level of awareness of tax legislation and rate of registration with SARS; Nature of benefit for NPOs; the timeframe of benefit; and, the scale of benefit by typology.

With regard to the level of awareness, the study found that amongst NPOs determined as Typology 2, levels of awareness of tax legislation remained limited to 54% of NPOs, while this rose 84% for Typology 1. The study found the low level of awareness amongst Typology 2 organizations indicates a significant barrier to uptake of the potential benefits of registration.

From the projections based on the survey results, one may assume that 13 633 NPOs have already registered with SARS, and a further 2 525 NPOs are in the process of registration. This represents 45% of the total population for the study.

The study found that many NPOs have indicated that the benefits that have accrued to them from registration with SARS are not restricted to tax benefit alone. Additional benefits such as increased funds, less tax paid, and an impetus for improved governance are some of the additional benefits identified.

From the extrapolation of the survey results to the number of NPOs registered with SARS, the study estimated that 2 466 NPOs would have increased their resource base as a result of registration, while 2 558 NPOs would have paid less tax as a result of registration. A relatively small number – 467 – of NPOs would have received more corporate funding as a result of registration.

The study considered the issue of the implications of the timeframe for the calculation of net benefit to NPOs. Given that the enactment of the legislation only became applicable in the 2001 tax year, and the long process of and delays in registration with SARS, it is unlikely that benefits accumulated to NPOs prior to the 2003 tax year. In this instance the study assumes that the total net benefit accruing to NPOs would therefore be only for one tax year (2003).

As indicated by the typology, the study found that the two categories of the typology will experience different degrees of actual benefit from registration with SARS. The survey results provided some indication of the scale of benefit accruing to NPOs according to various ranges. From the survey findings, the study estimated the direct benefits accruing to NPOs *who have registered with SARS* were as follows:

- 3 419 NPOs have received direct benefit to a total value of between R0-R12 000

- 690 NPOs have received direct benefit to a total value of between R12 000 – R24 000
- 306 NPOs have received direct benefit to a total value of between R24 000 – R36 000
- 345 NPOs have received direct benefit to a total value of between R36 000 – R48 000
- 154 NPOs have received direct benefit to a total value of above R48 000

The survey indicated that 19% of NPOs registered with SARS had received actual benefit in the form of reduced tax payable. Extrapolated to the full population, this represents a total figure of 2588 NPOs who had received direct benefit from less tax payable. Based on the analysis of a sample of NPO financial statements, and the extrapolation of the average benefit for each revenue category of NPOs registered with SARS, and who indicated that they *had received a tax benefit*, the *total net benefit to NPOs projected from 2001 to date is R74 551 688.00*.

Given that the number of NPOs that are currently registered with SARS is estimated at 13 633, and that they have yet to receive benefit, it is likely that these organizations will experience some tax benefit in the 2004 tax year. Based on this assumption, the estimated expected benefit for the 13 633 NPOs in the coming financial cycle (2004) will be in the region of R123 178 230.

If further projections are made to the entire population of NPOs in this study (at 34 313 NPOs), an estimate can be calculated based on an assumption that 95% of this population (32 646 NPOs) are eligible for Schedule 1 status (see Table 14). The total potential benefit, if all eligible NPOs are registered and receive benefit, is estimated at R940 422 888.

The study found the benefit accruing to donors is extremely difficult to quantify given the scarcity of data from Corporate Social Investment (CSI) donors, and from SARS. The limited survey of CSIs conducted in this survey have indicated that the benefits have been minimal, and of such a scale as to have warranted little attention by CSI funds. SARS has currently approved and registered 628 applications from NPOs for Schedule 2 status, which will provide the donors of these NPOs with tax exemption on up to 5% of their total income in respect of donations provided to these NPOs. In the face of a total formalized NPO population of 34 313 organizations for this study, the number of Schedule 2 registrations represents only 1.7% of the total number of NPOs.

1.3 Conclusions

The study found there to be limited actual benefit for NPOs from the tax legislation *at this point in time*. It has become increasingly clear in the implementation of this research that the timing of the study has resulted in a quantification of benefit at a very limited scale. In particular, the actual benefits accruing to NPOs has not been felt to a great degree at

this point, largely due to a low level of registration, and that the process is at an initial stage of development. There are a number of factors that have contributed to this situation:

- ❑ *The limited level of awareness* of the tax legislation by NPOs generally is retarding the rate of registration, although there are indications that the registrations are increasing as awareness is growing..
- ❑ The relatively *onerous process of registration with SARS*, coupled with resistance factors is also retarding the rate of registration, and hence benefit.
- ❑ The *slow rate of registration by SARS* is retarding the accrual of benefit to NPOs.
- ❑ The *lack of systematic coordination of information and registration* between SARS, the NPO Directorate, and the Registrar of Companies (DTI) is creating a climate of confusion for NPOs, further hampering efforts to enhance NPO registration in the NPO database, and with SARS.

The study reflects an overall picture of the registered non-profit sector in South Africa, and the benefits flowing from tax legislation introduced in 2000. This is a short period in which the true net benefit can be calculated. However, this study has also reflected that the governmental institutional arrangements currently do not promote inter-governmental relations in supporting and benefiting NPOs to derive maximum benefits of the legislation. While the findings of this study do provide useful recommendations the absence of information from SARS has hampered the calculation of the net benefit to NPOs in real terms.

2 INTRODUCTION

2.1 Overview

The impetus for this study arises primarily from the need to ascertain or evaluate the intention of the Taxation Laws Amendments Act, No 30 of 2000, as well as the actual monetary value, or benefit derived by the NPO sector. Secondly, a need exists to have a single typology through which this sector can be defined. The outcomes for this study were therefore specified as follows:

The statement of objectives¹ specifies the following outcomes from the research study:

- ❑ A valid and reliable determination of the net benefits derived by non-profit organizations (NPOs) from the Taxation Amendment Act of 2000
- ❑ A valid and reliable comprehensive typology of NPOs registered with the NPO Directorate of the Department of Social Development.

2.2 Methodology

The primary methodology employed to deliver the necessary outputs of the project was a national survey of NPOs. The survey was initially planned to be conducted over two phases, with comparative analysis between the Department of Social Development NPO Database and SARS records of NPO registration. However, due to the lack of information from SARS, the methodology implemented was a survey of two data sets. The first was the DSD NPO database, and a second dataset was introduced to the study to construct a comprehensive population of NPOs, namely the Section 21 (non-profit) company database from the Department of Trade and Industry. The combination of the two databases provided the full population of NPOs for the study.

The first phase of the study was a national telephone survey of a sample 1131 of NPOs registered on the Department of Social Development's NPO Directorate database. The second phase utilized a second data set as a means of verifying the information. This included a data set of Section 21 companies supplied by the Department of Trade and Industry.

Lastly, an analysis of financial data derived from a sub-set of the sample to determine the net benefits to NPOs according to typology was carried out based on the financial

¹ CREA-SA RFP No. GMTA-057

statements of 71 NPOs. On the basis of the survey, financial data in the form of detailed financial statements was sourced from NPOs who received actual benefit from registration under the NPO tax legislation. These financial statements provided the basis for calculating the net benefit as derived from the NPOs under study.

An extensive literature review was undertaken which provides an overview of work undertaken on the NPO sector in South Africa. Due to the dearth of information on the NPO sector with regards to taxation law a further literature review was undertaken which focuses on international examples of NPO taxation studies. A limited number of in-depth interviews were conducted as a means of gathering further information as well as a means of verification of initial research findings.

2.3 Research Instruments

The survey research instrument (see *Annexure 3*) was developed after extensive reviews of existing research. The questionnaire used in the South African Johns Hopkins study on the non-profit sector was studied to avoid duplication, as well as to ensure the research added to the findings of the John's Hopkins study.

A pilot study of the research instrument was undertaken to ensure reliability. Numerous amendments were thus made based upon the outcomes of the pilot, with a few further amendments applied within the process of the full survey.

A total of 1159 structured telephone interviews were completed (of which 1131 were validated for analysis) with NPOs registered on the DSD database over the period November 14th to December 5th 2003. This represents a 5% sample of the complete DSD database of 22 700 registered NPOs. In order to validate the information from the DSD database, and in the absence of the SARS database, a further sample set of 55 Section 21 companies (from the Department of Trade and Industry's database) was included. Of these, 41 telephone interviews were completed successfully.

In addition, 14 Corporate Social Investment programmes were surveyed to ascertain changes in the provision of funds to NPOs. The instrument utilized is attached as *Annexure 4*.

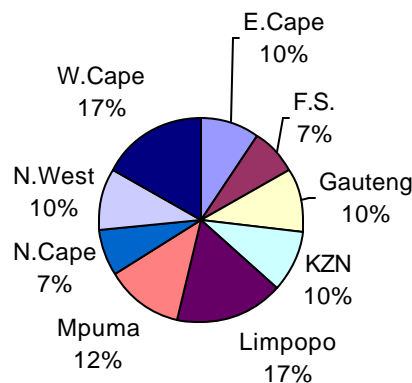
2.4 Sampling

The population of NPOs for the survey has been derived from the Department of Social Development NPO database. From a total of 22 700 registered NPOs, a sample of 5% (approximately 1159 NPOs) were sampled for the purposes of the survey. Sampling was

conducted according to a variety of criteria between provinces, and applied randomly to the database.

A further 55 Section 21 companies were randomly selected from a total population of 12 713 Section 21 companies registered on the Department of Trade and Industry Section 21 database. From this sample, 41 interviews, spread out equally over the nine provinces, were completed successfully. An average of 5 interviews per province was done for this particular part of the survey.

**Provincial Distribution of Completed Section 21
interviews**



Some initial problems were experienced with the sampling process. Firstly, a level of confusion was generated as to the appropriate dataset to use, as the Department of Social Development has differing publicly accessible and internal databases. Nevertheless, Umhlaba managed to secure the most updated version containing 22 700 registered NPOs as at 31 November 2003.

A second problem emerged with the quality of data on the DSD database. Entries into the database were often not accurately posted with many entries being posted into incorrect provinces, or invalid entries populated to record fields. In addition, many entries on the database were incompletely captured and did not have telephone number entries. Therefore before the sample could be derived, a data cleaning process had to be undertaken to render the database a reliable research sample.

A third problem area related to the accessibility of SARS information. Repeated attempts on various occasions to access the South African Revenue Services (SARS) database of NPOs that have registered with SARS were unsuccessful. As mentioned in earlier progress reports on the project, SARS was not in a position to provide this information.

2.5 Implementation

A team of 10 field workers was selected from the Department of Development Studies at the Rand Afrikaans University. Only senior students who had a good grasp of the nature of the NPO sector and had the ability to speak all African languages were selected.

The fieldworkers were inducted according to rigorous training sessions, where the aims, purpose and methodology of the study were discussed in some detail. This provided an opportunity to engage the fieldworkers with the research subject and purpose of the project. The training day also allowed a skills transfer between the project team, Umhlaba staff members and the fieldworkers where research methodological issues were explained. The research instrument was role-played in front of students as well as students carrying out mock interviews with each other.

Plans were made for a high demand for information from NPOs contacted, and a reference information pack was collated for use by them. This analysis proved correct as a review indicated that between 50-60% of interview time was spent on the provision of reference information to NPOs that were being interviewed.

2.6 Limitations

Obstacles within the project have related specifically firstly to the reliability of information accessed from the Department of Social Development (DSD), and secondly, to the lack of access to SARS data. With regard to the former, Umhlaba reviewed and reformatted DSD provincial databases to ensure reliable data. These are available and useful data sources in their own right. The second problem as already discussed, was more difficult to resolve. However the timing of this research study did not allow for the availability of the SARS data. In time this information should be available and will provide valuable information especially in correlation to the NPOs registered with DSD. Nevertheless the findings presented in this report are sound and were further validated by the inclusion of a further data set from the Department of Trade and Industry. This serves to further validate the findings of this study.

3 BACKGROUND

This review presents an overview of work undertaken on the NPO sector in South Africa. The review reflects the dearth of information pertaining to the relationship between NPOs and taxation regulations in South Africa (both past and current). International examples of how taxation laws have impacted on both the net benefit for NPOs as well as the development to the NPO sector are also included.

3.1 Typologies of NPOs

Studies of the non-profit sector (also known variously as the voluntary sector, the third sector, civil society, and the NGO sector) focus on the role and impact of the sector, and to a lesser extent on its size and scope. The distinctions made between organizations within the sector usually have to do with their type (such as non-governmental organizations, community based organizations, faith-based organizations, unions, etc) or legal status (organizations registered in terms of the Non Profit Organisations Act, section 21 companies, trusts, informal or voluntary associations, cooperatives, and so on). Some of the narrative reports use, in addition, broad social and political criteria such as opposition to or collaboration with the state, and survival or welfare orientation. However, these are imprecise and tend to shift over time.

The Non Profit Organisations Act of 1997 defines a non-profit organization (NPO) as a trust, company or other association of persons, that is not an organ of state, and that is:

- (a) Established for a public purpose, and
- (b) The income and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered.

Beyond this definition, the Act does not provide further specification of what these organizations might do, in which sectors they may operate, and what specific goals they may pursue. The data collected by the NPO Directorate of the Department of Social Development uses the objective and theme of registered organizations in order to classify them into different categories. The 'objective' is broader in scope, while the 'theme' identifies specific areas within the overall objective. The following internationally standardized objectives are used for this purpose (themes in parentheses):

- ☐ Animal Protection (animal protection and welfare; veterinary services; wildlife preservation and protection)
- ☐ Business and Professional Associations, Unions (business associations; professional associations; labor unions)

- ☐ Civic and Advocacy Organizations (advocacy organizations; ethnic associations; civil rights associations; civic associations)
- ☐ Culture and Arts (visual arts, architecture and ceramic arts; performing arts; historical, literacy and humanistic societies; museums; media and communications)
- ☐ Economic, Social Community Development (community and neighborhood organizations; social development; economic development)
- ☐ Emergency and Relief (temporary shelters; refugee assistance; disaster/emergency prevention and control)
- ☐ Employment and Training (job training programmes; vocational counseling and guidance; vocational rehabilitation and sheltered workshops)
- ☐ Environment (natural resources conservation and protection; environment beautification and open spaces; pollution abatement and control)
- ☐ Higher Education
- ☐ HIV/AIDS (prevention and education about HIV/AIDS)
- ☐ Hospitals and Rehabilitation (hospitals, rehabilitation)
- ☐ Housing (housing assistance; housing association)
- ☐ Income Support and Maintenance (income support and maintenance; material assistance)
- ☐ International activities (international human rights and peace organizations; exchange/friendship/cultural programmes; international disaster and relief organizations; development assistance associations)
- ☐ Law and Legal Services (victim support; rehabilitation of offenders; legal services; crime prevention and public safety; consumer protection associations)
- ☐ Mental Health and Crisis Intervention (crisis intervention; mental health treatment; psychiatric hospitals)
- ☐ Nursing Homes
- ☐ Other Education (vocational/technical schools; adult/continuing education)
- ☐ Other Health Services (public health and wellness education; emergency medical services; health treatment, primarily outpatient; rehabilitative medical services)
- ☐ Philanthropic Intermediaries and Voluntarism Promotion (voluntarism promotion and support; fund-raising organization; grant-making foundations)
- ☐ Primary and Secondary Education (elementary, primary and secondary education)
- ☐ Recreation and Social Clubs
- ☐ Religious Congregations and Associations (congregations; associations of congregations)
- ☐ Research (medical research; science and technology; social science, policy studies)
- ☐ Social Services (services for the handicapped; self-help; child welfare and services; services for the elderly; family services; youth services and welfare)
- ☐ Sports

The South African component of the John's Hopkins comparative international non-profit sector study adopts a broad structural approach that uses five operational criteria to define its scope.² Non-profit organizations must be:

1. Organized (have institutional form)
2. Private (but may receive funds from government)
3. Self-governing (control their own activities)
4. Operate not for profit (profits must be reinvested in the mission of the organization), and be
5. Voluntary (must engage volunteers and have non-compulsory contributions and membership).

The sectoral classification scheme used in the Johns Hopkins study is the same as that of the Department of Social Development, but is collapsed for purposes of presentation into the following broad categories: culture and recreation; education and research; health; social services; environment; development and housing; advocacy and politics; philanthropic intermediaries and voluntarism promotion; international; religion; business and professional associations; and unions.

According to the Johns Hopkins study, of the different fields in which organizations operate, the largest ones are social services (22% of the total), culture and recreation (20%), and development and housing (20%), trailing by health (7%), education (6%) and environment (3%). Putting together the sectors involved directly in the delivery of social delivery (education, health, social services, environment, and development and housing) gives us a total of 58,000 organizations throughout the country, of which 32,000 (55%) are informal and voluntary CBOs and about 10,000 (17%) are NGOs.³

In addition to sectoral affiliation, other relevant criteria used in the NPO Directorate's data set include province and date of registration. Our current study supplements this information by collecting data on organizations' legal status, target constituencies, bases of operation, and network affiliation. As discussed in a following section, these data are cross-tabulated with findings regarding the extent of awareness of new tax regulations, registration with the South African Revenue Service (SARS) as public benefit

² Mark Swilling and Bev Russell, *The Size and Scope of the Non-Profit Sector in South Africa*, School for Public and Development Management, University of the Witwatersrand, 2002.

³ Swilling and Russell, *The Size and Scope of the Non-Profit Sector in South Africa*, 2002. Different figures are provided in another survey undertaken around the same time, conducted by the Institute for Democracy in South Africa and the Co-operative for Research and Education for a report on *The state of Civil Society in South Africa*, but their findings apply only to the better organised and networked sector of civil society, and is not valid with regard to community-based organisations and other less formal organisations.

organizations, overall income of the organization and the type and size of benefits they have derived from new legislation.

Together, these criteria give us a sense of whether different sectors and sub-sectors tend to develop distinct organizational characteristics such as size and capacity. Ultimately though, for the typology to become more than a technical classification exercise it needs to be guided by substantive research and advocacy concerns. Our study should be seen as a pilot examination of the formal status and characteristics of organizations and how these are linked to their capacity, funding sources and ability to benefit from the new legislation.

3.2 Tax benefits

The campaign to reform the tax legislation and making it more NPO-friendly originated with the Independent Study into an Enabling Environment for NGOs, led by the Development Resources Center (DRC) in the early-mid 1990s.⁴ It culminated with the NPO Act of 1997 and the ninth report of the Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa, known as the Katz Commission, which was released in May 1999 and addressed specifically the taxation of NPOs.

The Commission received a large number of submissions made on behalf of individual NPOs, and from umbrella bodies and organizations representative of the NPO sector, including the South African National NGO Coalition (SANGOCO), and of the grant-making sector. In addition, the Commission received written submissions from international agencies and authorities, including the United States International Center for Non-for-Profit Law (ICNL), the Charities Division of Revenue Canada, the Australian Association of Philanthropy; and various religious organizations.

The submissions agreed on the need to retain the tax privileges that applied to some NPOs and to extend them further. One of the motivations for that approach was the difficult financial conditions that were experienced by NPOs in the immediate post-apartheid period, following a certain diversion of funds by overseas donors, from the NPO sector to government. The Commission argued that many other countries recognize that NPOs must be supported, by granting them some degree of preferential tax treatment and donor incentives, and that “there is a broad consensus in the international community regarding the justification for such beneficial treatment”.

⁴ For a survey of these efforts see Development Resources Centre, *Government-NGO Partnership: Some Emerging Lessons and Insights*, DRC, September 1999.

The rationale for supporting NPOs was based on the following: ⁵

- (i) NPOs are seen to be a relatively cost-effective means of delivering social and developmental services in a manner which relieves the financial burden which otherwise falls upon the State
- (ii) As civil society initiatives, NPOs are seen to promote important values in society, including voluntarism, self-responsibility, and participative democracy; and
- (iii) In societies such as South Africa with its gross disparities of income and wealth, NPOs represent an important mechanism for encouraging philanthropy and promoting greater equity and redistributive policies.

In light of the above, the previous extension of tax benefits extended only to religious, charitable and educational institutions of a public nature. This definition arbitrarily excluded many organizations that provide valuable services to the communities in which they operate. Furthermore, the granting of tax-exempt status was largely at the discretion of SARS. This led to a situation where for instance “while a soup kitchen would qualify, an AIDS awareness program would not, on the grounds that soup kitchens served the destitute; AIDS program clients were not necessarily poor.” ⁶

In view of the above, and relying on “international precedent and experience, the Katz Commission recommended that the tax law (Act 58 of 1962) should provide for a broader, generic definition of tax-exempt organizations, which would be simple to interpret. The activities of these organizations could be characterized as “exempt public-benefit activities”. The activities that were seen as qualifying for such support included:

1. Charity and altruism
2. Upliftment and development of indigent and disadvantaged communities
3. Welfare and social services
4. Religion, philosophy and belief
5. Politics, public policy and advocacy
6. Education, including adult, civic and public education
7. Job training, skills transfer, and the promotion of entrepreneurial skills for the benefit of unemployed and indigent persons
8. Recreation and sport
9. Culture and arts
10. Physical, mental and psychological health (including prevention, treatment, rehabilitation and support)
11. Environmental concerns, animal protection and wildlife conservation

⁵ Erika Wessels, Designing a favourable tax environment for Non-Profit Organisations, Unpublished Masters Thesis, 2003.

12. Provision of legal, medical and other professional services for the benefit of indigent persons, either free of charge or at a charge which is significantly less than that normally levied
13. International organizations directed to the promotion of peace, friendship, cultural exchange and other beneficial purposes
14. Museums of a scientific, cultural and historical nature; and
15. Institutions for the advancement of science.

At public hearings following the release of the report, the Non Profit Partnership (NPP), together with the DRC and the Legal Resources Center (LRC) presented a joint submission to the Portfolio Committee on Finance. In February 2000 the Portfolio Committee released its Draft Report on the Katz Commission Report, which formed a basis for the Taxation Laws Amendment Act no. 30 of 2000 (which was subsequently further amended).

In terms of the legislation, Public benefit organizations (PBOs) may become exempt from income tax, if they apply for exemption, giving full details of their activities with supporting documentation, and meeting certain criteria related to the way they generate and spend funds. The bulk of their activities (measured in cost or time) must be carried out for the benefit of persons in South Africa, in a non-profit manner and with altruistic or philanthropic intent. The main categories of such activities are: welfare and humanitarian; health care; land and housing; education and development; religion, belief or philosophy; cultural; conservation, environment and animal welfare; research and consumer rights; sport; and providing resources for approved PBOs.

The Amendment of 2000 described the already mentioned list of Public Benefit Activities (PBAs) that Public Benefit Organizations (PBOs) eligible for tax exemption (Section 10(a)), could engage in.

The second part of the amendment is intended to encourage donor organizations (corporates etc.) in donating more funds to PBOs. The list of PBOs which could qualify for this particular provision of the new tax law (Section 18(a)) is significantly shorter than the first, allowing only certain organizations within certain categories access to donor deductible status. These include:

1. Welfare and Humanitarian;
2. Health Care;
3. Education and Development; and,

4. Conservation, environment and animal welfare.⁷

To reflect on the achievement of the campaign, in March 2001 the NPP organized an International Conference on Tax and the Non-Profit Sector, to allow activists and specialists to share their experiences in developing an enabling income tax regime in their countries. In the view of the organizers (NPP) important lessons learned during the conference included:

1. The lobby for further tax benefits will succeed only if the non-profit sector is resolute in its efforts to reform income tax laws in South Africa.
2. The non-profit sector has much to offer society and is a significant economic force. In a democratic context, any group representing the non-profit sector in dealing with government must accept its position in society as strategic allies of the government and the private sector.
3. The success of the Campaign hinges on educating both the sector and its advisors regarding the changes to the tax framework. The Campaign must be translated into plain language, thus making it accessible at grassroots level. The technical implications of the outcomes of the Campaign must be conveyed to those who serve the sector in an advisory capacity. In the absence of this transfer of information, the results of the Campaign will be lost to the sector.

Among the papers presented at the conference was "Income Tax Issues for NGOs in Anglophone Africa" by the International Center for Non-Profit Law, which discussed the state of income tax benefits for NGOs in 24 countries in Anglophone Africa and compared the laws permitting these benefits to international good practice in this area. The paper considered the range of not-for-profit activities that are exempt from tax, the types of income that are exempt from tax, and the tax benefits for donations to charitable and other organizations. The research revealed a trend towards increasing the tax advantages for NGOs, though they are still restricted to public benefit activities. Furthermore, it was revealed that South Africa's new tax law is more progressive than similar laws in the rest of Anglophone Africa, and was more in line with international trends.

In a more historical vein, a paper titled "A Brief Historical Perspective on the Campaign to Reform South Africa's Tax Laws as Affecting Non-Profit Organisations (NPOs)" by Richard Rosenthal argued that Non-Profit Organizations in South Africa stand on the threshold of a new, more liberal tax dispensation, which marks a definite change in the attitude of the legislature and the Government towards the NPO sector, and recognition of its important role in society.

⁷ Ricardo Wyngaard, *Having Donor Deductible Status Demystifying the NPO Tax Laws*, Non-

Workshops on various legal issues affecting NPOs, which took place at the conference, reached the conclusion that many organizations (particularly CBOs) struggle to comply with the stringent reporting requirements of the NPO Act, and the NPO Directorate does not have the capacity to help. It called for extending the broad definition of public benefit activities to other pieces of legislation (such as the Skills Development Act and the National Development Agency Act), and for ongoing lobbying for less restrictive trading rules.⁸

While widely celebrated, some difficulties with the new legislation have been pointed by various organizations, including the Legal Resources Center.⁹ These included trading restrictions – preventing organizations from generating their own funds and encouraging reliance on donor funding, the complexity of the regulations – imposing burdensome administrative requirements phrased in difficult language that makes the law inaccessible to many organizations. The legislation's restrictive time frames was also an issue that was raised.

A subsequent submission to the Portfolio committee on finance on the Draft Revenue Laws Amendment Bill of 2003, made jointly by the NPP and LRC, focused on problems in accessing the exemption status due to restrictions in the legislation.¹⁰

One such restriction is related to the scope of the definition of public benefit activities, which cannot “capture the vast and dynamic range of activities undertaken by the non-profit sector.” There is therefore a need to include a generic category such as “any activity intended to promote the extension or protection of the rights, freedoms and values enumerated in Chapter 2, (the Bill of Rights), of the Constitution of the Republic of South Africa, 1996.”

The NPP and LRC also call for including specific mention of various activities. Under Education and Development they suggest adding the training of persons employed in the national, provincial or local spheres of government, for purposes of capacity in those spheres of government, and career guidance and counseling services provided to persons for purposes of attending any school or higher education institution. Under Land and Housing they suggest adding the promotion, facilitation and support of access to land and use of land, housing and infra-structural development for promoting official land reform programmes; the protection, enforcement or improvement of the rights of poor

Profit Partnership, 2001. p. 14

⁸ Documentation on the conference and abstracts of papers are found on the NPP web site: www.npp.org.za

⁹ *New Tax Law for South African Non-Profit Organisations*, LRC information series no. 3, October 2002.

¹⁰ Submission to the Portfolio Committee on Finance, NPP/LRC, 8 October 2003.

and needy tenants, labor tenants or occupiers, to use or occupy land or housing, and the administration of collective housing projects comprising housing units that have been developed, constructed, upgraded, converted or procured for the benefit of the poor and needy.

Another area of concern is the limitations on trading activities and, in particular, provisions for de-registering organizations that exceed the stipulated trading limitations. To ensure sustainability many organization engage in income generation activities, which do not mean a derogation of their primary objective. The current legislation severely restricts the potential for organizations to raise funds through trading, and severely punishes breaches of the legislation. The Act must promote financial sustainability. In its current format it entrenches reliance on donor funding and inhibits financial sustainability. The NPP/LRC suggest allowing a wider engagement in income-generating activities without affecting the exemption of PBOs.

The third main concern is the need for a simplified registration and filing procedure for smaller PBOs and extended compliance dates. This would help the majority of NPOs, which are informal or voluntary associations, with limited administrative capacity.

We can summaries the concerns with the legislation, as it affects non-profit organizations, as the three issues of:

- The need to extend its scope
- The need to allow some income-generating activities, and
- The need to make it less complicated and more accessible to smaller and less organized associations.

Richard Rosenthal notes that “The existence of these deficiencies was acknowledged by the Minister of Finance in his latest Budget Speech, and over the past months a task team, including lawyers representing the Non-Profit Partnership, and officials from SARS and the Treasury, have been involved in reviewing the wording of the new legislation with the object of refining the drafting and eliminating unintended errors.”¹¹

Further studies need to focus on these three areas to examine whether NPOs feel they are important, how they see the solution to these difficulties, and what are the benefits of the legislation for their operation. This last theme is the main focus of the current research.

11 Richard Rosenthal, An Update: Tax Reform Campaign, The Southern African Grantmakers' Association, Johannesburg, 2002.

Another area of interest is the impact of the tax legislation on the donor organizations. Strictly speaking this falls beyond the scope of this study, with its focus on non-profit organizations, and is an issue that should be studied separately.

For donors to be able to deduct donations made to NPOs from their taxes, the beneficiary organization must be registered as a public benefit organization and carry out public benefit activities as defined by SARS. These activities include:

- ☐ Welfare and humanitarian activities
- ☐ Health care
- ☐ Education and development
- ☐ Conservation, environment and animal welfare.

This is a limited range of activities and is subject in addition to a limitation that the donation must not exceed 5% of the taxable income of the donor.¹² To facilitate donations to public benefit organizations, the list of activities that entitle donors to tax deductions must be expanded to match the list of activities that entitles organizations to the PBO status. Legislation must also remove barriers to donations by expanding the limits on donations (as proportion of taxable income), as is the case in countries as varied as the USA (50%), Australia (no limit) and India (various extensive benefits to donor supporting public benefit and development activities).

In conclusion whilst very little information currently exists on the S.A. context which makes comparability difficult, but on the other hand it allows for South Africa to do its own pioneering work within this field, and develop its own frameworks and typologies unique to the South African context. However this exercise should be seen as a first attempt at enriching the body of knowledge about this sector in South Africa. Knowledge on NPOS, their governance and funding capacity is critical for future interventions, and more research is thus needed to enhance the work of this sector.

¹² Erika Wessels, *Designing a favourable tax environment for non-profit organisations*, November 2003.

4 SURVEY FINDINGS

The survey included 1131 organization in all nine provinces. The following table presents the number of organizations surveyed in each province and their proportion in the overall sample:

Table 1: Provincial Distribution of Sample

Province	Frequency	Percent of total
Eastern Cape	103	9%
Free State	135	12%
Gauteng	155	14%
KwaZulu-Natal	106	9%
Limpopo	148	13%
Mpumalanga	153	13.5%
Northern Cape	73	6.5%
North West	91	8%
Western Cape	167	15%
All	1 131	100%

4.1 Sample Description

Most of the organizations in the sample – 87% - were legally registered as Non-Profit Organizations (NPOs). Only 5% were registered as Section 21 companies, 4% as trusts or foundations and 3% as religious organizations.

The majority were based in communities (87%), while the rest were provincially based (8.5%) or nationally based (4.5%). A number of organizations (2% of the total) were based in provinces in addition to being primarily based in communities or at the national level.

The primary constituencies for organizations' work were individuals or families (50% of the total) and communities (48%). Only a small percentage identified other NPOs as a target (1%).

Organizations in the survey were equally divided between those who were based primarily in the urban areas (43%) and in the rural areas (42%). In addition, 15% identified their area of activity as covering both urban and rural bases.

Consistently with the findings, the majority of organizations in the survey – 62% – regarded themselves as community-based organizations (CBO). Only 32% regarded themselves as NGOs, and 4% defined themselves as both NGOs and CBOs.

It thus seems clear that most NPOs in the survey share a focus on communities, and direct their efforts accordingly. This is reflected in the structure of governance as well, with a similar majority run by a self-selected executive committee (62%). The rest were governed by a board of trustees (9%), board of directors (8%), management board (9%), and a governing body (9%). CBOs were more likely to be self-governed in this way (66% of CBOs compared to 53% of NGOs).

The majority of organizations in the survey were affiliated to a broader network or council, with only 39.5% not affiliated (more likely to be CBOs – 44.5% of them were not affiliated as compared to 31% of NGOs). Just over a quarter of the sample were affiliated to a network (26%), 13.5% were affiliated to a government department and 7% to a forum. Other forms of affiliation were to a national council (4%), coalition (3.5%), provincial council (3%) and an international association (1.5%). In all categories (except for network), NGOs were more likely to be affiliated than were CBOs.

4.2 Financial Information

Importantly for this study, many organizations cannot pay salaries on a regular basis, indicating meager financial resources. Almost a quarter (23%) did not pay staff salaries in the two months preceding the survey, and the staff of an additional 37% of organizations consists of volunteers who do not get paid. Only 39% paid their staff salaries in the preceding two months (54% of NGOs but only 32% of CBOs).

As can be expected, reliance on volunteers is prevalent more among CBOs (43% of them have only volunteers as staff) than among NGOs (22%). Organizations relying on volunteers are also less likely to be registered with SARS (15% of them are). In comparison, those that paid their staff salaries in the preceding two months showed much higher rate of registration (71%).

Whereas 11% of organizations in the survey had no financial resources, 77% of them had revenue of less than R250,000, 8% had revenue of R250,000 to R1,000,000, and 4% has revenue exceeding R1,000,000. As Table 2 makes clear, there are distinct differences in income levels between organizations of various types. Overall, organizations defining themselves as CBOs and operating at community level, and non-profit organizations are more likely to operate without financial resources or with relatively meager resources. NGOs, urban-based organizations, and those based at provincial and national levels are more likely to enjoy relatively high revenues. This is also true for sections 21 companies, compared to NPOs, and to a limited extent for

affiliated organizations to some kind of network or forum, compared to non-affiliated organizations.

Table 2: Overall Revenue By Type Of Organization

Type	No income	R0 – R250,000	R250,000 – R1,000,000	More than R1,000,000
CBOs	10%	80%	7.5%	3%
NGOs	11%	68%	10%	8%
Rural base	17%	75%	6%	2%
Urban base	10%	76%	9%	5%
Community base	12%	79%	7%	3%
Provincial base	4%	69%	17%	10%
National base	8%	52%	18%	22%
NPOs	11%	79%	7%	3%
Section companies ²¹	9%	64%	14%	12.5%
Affiliated organizations	10.5%	75%	10%	5%
Non-affiliated organizations	11%	79%	6%	4%
All	11%	77%	8%	4%

Organizations differ not only by the overall amount of financial resources in their possession, but also by the sources of revenue, as shown in Table 3. Other major sources of income that were mentioned by organizations include fundraising, own money, “own pockets”, school fees, self-funding and self-generated funds.

Table 3: Sources of Funding as Proportion of Overall Revenue

Source	Less than 20% of revenue	20% to 50% of revenue	More than 50% of revenue
Local funders	94%	3%	3%
Government subsidy	77%	11%	12%
Private donations	71%	13%	16%
Corporate funding	97%	2%	1%
International funding	94%	3%	3%

Overall, organizations were more likely to use private donations and government subsidies as major sources of income, while local, corporate and international funders were less important sources. A strong emphasis on self-funding and fees (especially for educational institutions) is also evident.

4.3 Awareness Of Tax Regulations

Of all organizations in the survey, a majority of 57% was aware of the NPO Taxation regulations, while a substantial minority of 43% was not aware of these. Awareness varied across a number of variables. In some of the provinces awareness was higher than average, particularly in the Western Cape (71% of organizations there were aware of the regulations), Eastern Cape (67%) and Northern Cape (64%). Other provinces fell below average, particularly the North West (38%) and Mpumalanga (49%), with the rest hovering around the average.

Among organizations registered as NPOs, 54% were aware of the tax regulations, as compared to 74% of those registered as trusts or foundations, and 82% of Section 21 companies. Organizations that were nationally and provincially based were equally likely to be aware of the tax regulations (72-73% of them were), more than the community based organizations (among which only 54% were aware).

Rural organizations were less likely to be aware of the tax regulation (51%) than were urban organizations (60%), but those who defined themselves as both urban and rural showed the highest level of awareness (74%), as they were also more likely to be provincially and nationally based.

Finally, consistently with the trend outlined earlier, NGOs showed higher awareness of tax regulations (64%) than CBOs (53%), with those defining themselves as both occupying a middle position (57%). Affiliated organizations were much more likely to be aware of the regulations than non-affiliated organizations (63% compared to 47%).

Table 4: Awareness of Tax Regulations by Type of Organization

Type	Yes	No
CBOs	53%	47%
NGOs	64%	36%
Rural base	51%	49%
Urban base	60%	40%
Community base	54%	46%
Provincial base	73%	27%
National base	72%	28%
NPOs	54%	46%
Section 21 companies	74%	26%
Affiliated organizations	63%	37%
Non-affiliated organizations	47%	53%
All	57%	43%

It seems clear from Table 4 that there is a link between the level at which an organizations operates and its awareness of tax regulations. Generally speaking, organizations working at the local level with communities (especially in the rural areas) are less likely to have access to public knowledge and be affiliated with larger networks that may provide such information. Organizations working at provincial and national levels, especially urban NGOs are more likely to become members of networks and have access to information. This conclusion is reinforced when we consider that non-affiliated organizations show lower level of awareness (47%) than all other forms of organizational affiliation. Almost two-thirds of the organizations affiliated to networks show awareness of the tax regulations, and among members of national and provincial coalitions and councils, the percentage reaches the mid-70s.

4.4 Registration with SARS

Whereas over half of the organizations in the survey – 57% – were aware of the NPO tax regulations, just over a quarter of the total – 26% – were registered with SARS as a public benefit organization (PBO), and an additional 7% were in the process of registration. Two thirds of the organizations in the survey (65% of the sample) were not registered with SARS. Of those organizations that were aware of the regulations, 45% were registered with SARS, 12% were in the process of registering and 41% were not registered.

The provincial breakdown of the result shows that in some provinces the level of registration was higher than average (Western Cape leading with 46%, followed by the Eastern Cape at 43% and the Free State at 35%). Other provinces lagged behind, particularly the North West (8%), Limpopo (9%), Northern Cape (14%) and Mpumalanga (14%). It is important to note that low percentages of registered organizations in the latter provinces do not stem primarily from low levels of awareness, but also from lack of practical application of existing knowledge.

Breaking down the findings by the legal status of organizations, a big gap is obvious between organizations registered only as NPOs (23% of which are registered with SARS) on the one hand, and those registered as trusts or foundations (58% are registered with SARS) and Section 21 companies (59%), on the other.

The trend evident earlier with the awareness of tax regulations is shown with regard to SARS registration as well. The proportions registered increase with the better-connected and sophisticated organizations, and decrease with those that seem more marginalized. Thus, 51% of nationally based organizations were registered with SARS, compared to 41% of provincially based organizations and only 23.5% of those based in communities.

The proportion of registered urban organizations is double that of their rural counterparts (28% to 14%), and those who work at both rural and urban areas (more likely to be

provincially and nationally based) have a still higher rate at 36.5%. similarly, the proportion of registered NGOs (40.55) is double that of registered CBOs (20%). These trends are still evident when we examine the intersection between area of operation (rural/urban) and type of organization (CBO/NGO). NGOs show higher rates of SARS registration than CBOs do, both in the rural areas (30% to 11%) and urban areas (38% to 25%).

Table 5: Registration with SARS by Type of Organization

Type	Yes	No
CBOs	20%	73%
NGOs	40.5%	50%
Rural base	14%	76.5%
Urban base	28%	64%
Community base	23.5%	69%
Provincial base	41%	48%
National base	51%	35%
NPOs	23%	69%
Section 21 companies	59%	34.5%
Affiliated organizations	30%	60%
Non-affiliated organizations	21%	73%
All	26%	65%

The most common method of receiving information about NPO taxation regulations was through a network meeting (23%), followed by auditors/accountants (19%), newsletters and newspapers advertisements (9% each) and forum meetings (7%). Generally speaking, the organizations that found the regulations easy to understand were more likely to be the same ones that were registered with SARS (nationally and provincially urban based NGOs). CBOs working with a rural base were more likely to have found the regulations difficult to understand.

Overall, 64% of organizations registered with SARS have found the regulations easy or very easy to understand, and 27% found them difficult or very difficult (8% did not know). However, these figures reflect only those organizations aware of the tax regulations, and we do not have a precise measure of the perceptions of all organizations, since those who were not aware of them obviously could not offer an opinion. It is safe to assume though, that complicated language and requirements deter organizations from applying for registration, especially when the capacity to deal with paper work is limited (as is the case for CBOs, and other organizations based in the rural areas).

Table 6: Perceptions Of Easiness Of Tax Regulations By Type Of Organization

Type	Easy	Difficult
CBOs	62%	28%

NGOs	68%	25%
Rural base	57%	36%
Urban base	74%	21%
Community base	60%	31%
Provincial base	79%	13.5%
National base	84%	16%
NPOs	66%	26%
Section 21 companies	65%	30%
Affiliated organizations	63%	29%
Non-affiliated organizations	67%	24%
All	64%	27%

4.5 Benefits Of Registration

When asked about the primary impact of the 2000 tax exemption Act, the most common response was that it has increased the resource base (36%), reduced the tax paid (24%), and allowed for more corporate funding (4%). At the same time over a third of the respondents saw no benefits yet or did not know of any benefits (16% and 19.5% respectively).

Table 7: Benefits of tax legislation by type of organization

Type	Increase resource base	Less tax paid	More corporate funding	No benefits yet	Do not know
CBOs	35%	29%	3%	14%	19%
NGOs	35%	21%	5.5%	17%	21%
Rural base	33%	16%	5%	27%	17.5%
Urban base	41%	30%		14.5%	14.5%
Community base	35%	21%	4%	17.5%	21%
Provincial base	36%	29.5%	4.5%	14%	14%
National base	36%	39%	4%	11%	11%
NPOs	24%	21%	5%	18.5	21%
Section 21 companies	42%	25%		14%	17%
Affiliated organizations	40%	22%	5%	14%	18%
Non-affiliated organizations	26%	29%	2%	21%	23%
All	35%	24%	4%	16%	19%

Although in Table 7 40% indicated that the impact of the legislation has been to increase funding (increased resource base and more corporate funding), only 29% confirmed that their organization has indeed secured additional funds since registration, while 60% say it has not. Adding to these were responses of those who said there had been no additional funds yet, or that they did not know of any such increase, gives a total of 71% who have not experienced increased funding.

Table 8: Increased Funds By Type Of Organization

Type	Yes	No/do not know
CBOs	26%	74%
NGOs	31%	69%
Rural base	28%	72%
Urban base	29%	71%
Community base	26%	74%
Provincial base	36%	64%
National base	44%	56%
NPOs	28%	72%
Section 21 companies	27%	73%
Affiliated organizations	32%	68%
Non-affiliated organizations	21%	79%
All sample	29%	71%

For most organizations the amount of the financial benefit derived from the tax legislation is fairly limited: 10% have seen no benefit yet, 52% do not know if there has been any benefit, 30.5% saw benefit of less than R12,000, 4% saw benefit between R12,000 and R24,000, 1% saw benefit of R24,000 to R36,000, 2% of R36,000 to R48,000 and 1% saw benefit of over R48,000.

Table 9: Size Of Benefits By Type Of Organization

Type	Less than R12,000	More than R12,000	No benefit/ Do not know
CBOs	35%	8.5%	57%
NGOs	27%	8%	65%
Rural base	26%	7.5%	66%
Urban base	35%	9%	57%
Community base	34%	4%	62%
Provincial base	19%	19%	62%
National base	18%	25%	57%
NPOs	30.5%	6%	64%
Section 21 companies	28%	9%	62.5%
Affiliated organizations	30%	9%	61.5%
Non-affiliated organizations	31%	6.5%	62%

All	30%	8%	62%
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Finally, it would be interesting to examine the type and size of financial benefits by the overall revenue of the organization.

Table 10: Benefits by size of organization

Revenue	Additional funding	Less tax	Increased resource base	More than R12,000
No income	18%		8%	
R0 – R250,000	24%	21%	34%	2%
R250,000 to 1,000,000	39%	34%	34%	8.5%
More than R1,000,000	38%	41.5%	41.5%	40.5%
All	29%	25%	34%	8%

Table 10 indicates clearly that the bigger and better resourced organizations are also the ones benefiting more from the new regulations. More of them report they have received additional funding, paid less tax, increased their resource base and derived benefits of a larger amount. This is most likely a result of being better organized and resourced. As an overall conclusion, there is little doubt that the extent to which an organization makes use of the tax legislation and benefits from it is principally related to its organizational capacity and networking abilities.

4.6 Corporate Social Investment Findings

An initial sample of 30 Corporate Social Investment funds was identified, but yielded limited success in practice as responses were elicited from only 14 of these. The survey used the instrument attached as *Annexure 4*.

Most of the companies surveyed were unaware of the Amendments to the Tax Act, and that the exemptions were broadened to incorporate public benefit entities, with specific reference to the welfare sector. Many are aware of the “old” section 18A clause and still work according to this. Many are still supporting schools, crèches and some sporting bodies, and it does appear that these have been on their funding lists for some time.

When questioned as to whether CSIs request tax exemption certificates, only one respondent was aware of this, but this was because the organisation offered this on their own initiative to the corporate, when they made a request for funds. Most of the respondents referred the surveyor to the finance department of the CSI, as they were of the opinion that this issue should be dealt with by that section.

When queried on their criteria for funding, and the documentation required with the application for funding, most responded that the NPO registration certificate was sufficient for this purpose. However, whilst the awareness was low, many of the CSIs were part of the Katz commission consultative process, but were not aware that the recommendations were put into effect.

The SA Grantmakers Association has conducted awareness workshops with the CSI sector in 2000, and they still keep CSIs updated with the current situation, especially the input sent to the Parliamentary Portfolio Committee in December 2003.

According to the respondents, the implications for the CSI sector were negligible, as their policies did not change because of the Act. Rather changes were based on prioritised needs for funding support, and the specific issue the company has decided to target for the financial year. For example, the policy changed to include sweat equity, and transfer of skills from the corporate sector to communities, through community committees made up of staff.

The results of this small survey were extremely disappointing, in that the CSI sector is one of the key partners in development, and yet were unaware of this legislation that could bring about benefits in terms on tax deductions for the company, and further benefit to relevant NPOs. Secondly, the response from the CSIs was apathetic when compared with the NPO survey. Many respondents did not even ask for more information, nor showed an interest in the issue being reviewed.

4.7 Additional Survey Findings

During the telephonic survey conducted by the team workers a number of anecdotal findings were shared with the project team, providing an important qualitative aspect to the findings.

Firstly, there appeared to be a high degree of confusion amongst NPOs as to the regulatory framework. Most CBOs were under the impression that registration as an NPO automatically gave them tax-exempt status. Furthermore, there was confusion about the intention of the two pieces of legislation. Many also were not aware that these were two separate Acts, each with its own clear mandate, and in order to benefit from the Tax Amendment Act, one had to register as a PBO with SARS.

However, the same cannot be said of the Section 21 Companies and Trusts. They were familiar with the information with regard to the Tax Amendment Act, and appear to perceive this Act as more relevant to them than the NPO Act. It appeared from some of the comments made by the respondents that registration as an NPO was not as important as the registration as a PBO, and it was a mere formality. It was also important

to note that the fieldworkers undertaking the Section 21 telephone survey did not need to spend as much time explaining the details of the tax legislation as compared to the amount of time spent with other NPOS.

Another interesting finding was that many respondents from both the NGO and CBO sector were like sponges during the interviews, and requested additional information from the field workers. Some of them went as far as requesting the consultancy's details as well as those of fieldworkers as they were extremely appreciative of the information that was supplied to them. Interesting to note was the fact that these organizations whilst aware of the National Department for Social Development and the role that they play in relation to the NPO sector, they were unaware of the provincial and local Departments of Social Development, and that they could access all types of information from these departments.

Most religious organizations see themselves as NPOs first rather than Faith Based Organizations (FBOs), hence the possible low percentage of this category appearing in the analysis.

5 TYPOLOGY OF ORGANISATIONS

5.1 Variables

To construct a typology of organizations the following dependent variables have been used:

- ☐ Awareness of tax regulations
- ☐ SARS registration
- ☐ Type of benefits from registration
- ☐ Whether the organization received additional funding following the new tax legislation
- ☐ The size of financial benefit received as a result of registration.

The study has examined five independent variables to see their impact on the dependent variables above.

The variables used for the typology are presented here mostly as dichotomous:

- ☐ CBOs versus NGOs
- ☐ Rural-based organizations versus urban-based organizations
- ☐ Community-based versus province-based and nation-based organizations
- ☐ NPOs versus section 21 companies
- ☐ Non-affiliated versus affiliated organizations.

The expectation is that in each of these pairs, the first term will have benefited less from the legislation, while the second term will have benefited more.

5.2 DSD Typology

The resulting matrix is presented below (the first term in each pair is highlighted):

Table 11: Typology Pairing Matrix

	Awareness of tax laws	SARS registration	Increased resource base d	Increased funding	Over R12,000 benefit
CBOs	53%	20%	35%	26%	8.5%
NGOs	64%	40.5%	35%	31%	8%
Rural base	51%	14%	33%	28%	7.5%

Urban base	60%	28%	41%	29%	9%
Community basis	54%	23.5%	35%	26%	4%
Provincial basis	73%	41%	36%	36%	19%
National basis	72%	51%	36%	44%	25%
NPOs	54%	23%	24%	28%	6%
Section 21	74%	59%	42%	27%	9%
Non-affiliated	47%	21%	26%	21%	6.5%
Affiliated	63%	30%	40%	32%	9%

With minor exceptions, the pattern emerging from this table is clear. Overall, organizations that define themselves as CBOs, organizations working in the rural areas, organizations based at community level, organizations registered only as NPOs, and organizations that are not affiliated with a network, are:

- ? Less likely to be aware of the new tax regulations
- ? Less likely to be registered with SARS
- ? Less likely to have received benefits from their registration, and if they have received benefits, less likely to have received large ones
- ? Less likely to have received increased funding.

For the purposes of further analysis this overall category of organization will be termed *DSD Typology 2*.

The converse of that is that organizations defined as NGOs, based in the urban areas, operating at the provincial and national levels, registered as section 21 companies and members of networks or coalitions, are more likely to be aware of the new tax regulations, more likely to be registered with SARS, more likely to have received benefits from their registration – and if they have received benefits, more likely to have received large ones – and more likely to have received increased funding.

For the purposes of further analysis this overall category of organization will be termed *DSD Typology 1*.

In order to determine the entire population of NPOs according to these categories, the following proportions can be calculated.

Table 12: Total Population of NPOs

Category	% of DSD NPOs	No. of NPOs	% of DTI S21s	No. of NPOs	Total Number of NPOs	% of Total
Typology 1	13%	2 951	100%	12 713	14 564*	42.4%
Typology 2	87%	19 749	0%	0	19 749	57.6%
Total	100%	22 700	100%	12 718	34 313*	100%

* Provision for duplication of 1100 Section 21 companies registered on both databases has been made.

As indicated, the total population of formalized NPOs is assumed at 34 313 organizations, of which 14 564 may be determined as Typology 1 and 19 749 may be categorized as Typology 2.

5.3 Tax Typology Table

The table below is an attempt to synchronize the different categories as identified by the SARS categorization for (a) tax exemption and (b) donor deductible status, the Department of Social Development (DSD) NPO categories, and the Johns Hopkins NPO Study (2002). This typology according to tax benefit status provides an indication of the lack of direct correspondence of categories, although as can be noted from the table, there are very few differences between the three systems of categorization, and they can be assimilated without undue difficulty.

Table 13: Tax Typology Table

SARS Categories	DSD Categories	Johns Hopkins Study Categories
Category 1: Welfare and Humanitarian	Economic, Social and Community and Development Employment and training Social Services Emergency and Relief Income Support and Maintenance Development of mentally retarded children Law and Legal Services (advice & victim empowerment) ^{####} HIV/AIDS [#]	Empowerment ^{###} Social Services

Category 2: Health Care	Hospitals and rehabilitation Nursing Homes HIV/AIDS [#] Other Health Services Mental Health and Crisis Intervention	Health
Category 3: Land and Housing	Housing ^{##}	Housing
Category 4: Education and Development	Primary and Secondary Education Higher Education (university level) Other Education	Education and research
Category 5: Religion, Belief and Philosophy	Religious Congregations and Associations	Religion
Category 6: Cultural	Culture and Arts Recreation and social clubs Service clubs	Culture and recreation
Category 7: Conservation, Environment and Animal Welfare	Environment Animal Protection	Environment
Category 8: Research and Consumer Rights	Research	Education and research
Category 9: Sports	Sports	Culture and recreation
Category 10: Providing of funds, assets and/or other resources	Philanthropic intermediaries and voluntarism promotion	Philanthropic intermediaries and voluntarism promotion
Unspecified / Not Eligible	Civic and Advocacy Organizations Political organizations Business and Professional Associations, Unions Law and Legal Services (broadening out of legal rights) ^{####}	Advocacy and politics
Unspecified / Not Eligible	International Activities	International

Given the sheer volume of organizations active in the area of HIV/AIDS, it was felt that a distinction should be made between those that provide medical treatment for HIV/AIDS sufferers, such as testing, hospital and hospice care etc., and those providing services of a caring nature, such as Home Based Care, Orphan Support, Income Support, Legal Advice etc.

It is interesting to note that the Johns Hopkins NPO study (Swilling & Russell 2002: 27-31), ventures no classification of HIV/AIDS services.

The Johns Hopkins NPO study (Swilling & Russell 2002: 27-31) classes 'Housing' as a category under the broad theme of 'Development and Housing'. It was decided in this study however, that 'Housing' as a category, cannot be classed in the same way as the categories 'Economic, Social and Community Development', as well as 'Employment and Training'. Indeed, Swilling & Russell (2002: 31) alludes to the arbitrariness of this distinction themselves: "Interestingly, most of the activities in which NPOs in this sector were involved revolved around economic, social, and community development as opposed to housing itself."

This study therefore will separate 'Housing' and class it as a stand-alone category, whilst 'Economic, Social and Community Development' along with 'Employment and Training' will be classed together in what has been re-named 'Empowerment'.

There is also a distinction to be made with regards to the category 'Law and Legal Services'. Some organizations provide advice to individuals, as well as victim empowerment. Such services are of a social/caring nature, and should therefore be categorized as social services. Other organizations are concerned with advocacy and the entrenching/broadening of the rights associated with democracy. Such organizations would therefore fit more comfortably in the 'Advocacy and politics' category.

6 BENEFITS FOR NPOs OF TAX LEGISLATION

6.1 Eligibility of NPOs for Tax Benefit

Based on the findings of the survey, and extrapolation to the full population of formalized NPOs of approximately 34 313 NPOs, the following categorization emerges with regard to eligibility of NPOs for tax benefit.

Table 14: Numbers of NPOs Eligible for Tax Benefit

SARS CATEGORY	ELIGIBILITY	DSD SAMPLE SURVEY	%	TOTAL NUMBER OF NPOS
Category 1:	Schedule 1 & 2	589	50.21	17 230
Category 2:	Schedule 1 & 2	259	22.08	7 576
Category 3	Schedule 1	2	0.17	59
Category 4:	Schedule 1 & 2	46	3.92	1 346
Category 5:	Schedule 1	98	8.35	2 867
Category 6:	Schedule 1	47	4.01	1 375
Category 7:	Schedule 1	43	3.67	1 258
Category 8:	Schedule 1	1	0.09	29
Category 9:	Schedule 1	15	1.28	439
Category 10:	Schedule 1	16	1.36	468
Unspecified	Not eligible	57	4.86	1 667
Total		1 173	100.00	34 313

As indicated in Table 14, most NPOs (76%) are eligible for benefit under both Schedule 1 and 2, while 19% are eligible for Schedule 1 only, and 5% of NPOs are not eligible for benefit.

Not all categories as described by the Department of Social Development or the Johns Hopkins NPO Study (Swilling & Russell: 2002) can fit neatly into the categories defined by the Ninth Schedule to the amended NPO Tax Law (Amended 2000). The result of this could likely be that many worthy NPOs do not qualify for exemption simply because of their classification according to the Ninth Schedule. This is noted by Richard Rosenthal (2002: 2) "Unfortunately, one of the consequences of the 'legislative haste' has been that the new provisions - including, in particular, the wording of the prescribed

Ministerial Schedules of so-called 'public benefit activities' - are not well drafted, and a number of omissions, obscurities, and anomalies have come to light, causing wide concern amongst Donors and affected organizations."

In this regard, a broadened out Ninth Schedule was drawn up as a proposal by the Non Profit Partnership (NPP) in collaboration with the Legal Resources Center (Non Profit Partnership 2002: 1 - 3)

The fact that category classifications differ from institution to institution likely causes a certain amount of confusion in this sector when it comes to determining the eligibility of an organization for Tax Exemption (Section 10(a)/Schedule1) or Donor Exemption (Section 18(a)/Schedule 2).

It would therefore be recommended that a comprehensive typology of NPOs be used by all institutions involved in this sector, as miscommunication seems related to different terminologies that describe the same categories or organizations.

Since both SARS and DSD go through similar processes in terms of administrating the registration of organizations, it can be recommended that these two departments try and assimilate their systems. There should be negotiations between the relevant departments about their numbering system allocation, so that the agreed upon category (see above) is represented and recognized by both SARS and DSD, in the hope of shortening and simplifying the administrative processes of both departments.

In terms of Schedule 2 of the Act (Section 18(a)), the Ninth Schedule is reduced for organizations that can qualify for donor deductible status. This is mainly to prevent exploitation of the Act. The Public Benefit Activities eligible for registration according to Schedule 2 comprise: Welfare and humanitarian; Health Care and Education and Development. Categories such as 'Environment', 'Religion' and 'Housing' are therefore rather arbitrarily excluded from becoming more attractive to donors. The list of PBAs eligible for donor deductible status should be broadened out, whilst the exploitation of the Act should be prevented in another way. It is recommended that DSD should play a much bigger role when it comes to monitoring this sector, as this department is probably

better placed than most within this sector. Again necessitating increased cooperation and communication between the relevant institutions.

6.2 Calculating Benefit for NPOs

In order to calculate the benefits of the tax reform legislation of 2000, four issues need consideration: Level of awareness of tax legislation and rate of registration with SARS; Nature of benefit for NPOs; Timeframe for benefits; and, the scale of benefit by typology.

6.2.1 Rate of Registration

The first of these is the level of awareness of potential benefit from SARS registration, and the rate of registration amongst NPOs. These two variables indicate the proportion of South African NPOs who may benefit from tax registration. The following tables indicate awareness and registration amongst NPOs, whose responses are organized according to DSD Typologies 1 and 2 (see Section 5.2).

Table 15: Awareness of Tax Legislation

Aware of Law	Typology 1	Typology 2
No	15.58%	45.93%
Yes	84.42%	54.07%

The low level of awareness amongst Typology 2 organizations indicates a significant barrier uptake of the potential benefits of registration.

Table 16: Registration with SARS

Registered With SARS	Typology 1		Typology 2		Total Projected No. NPOs
	Proportion of Sample	Total Projected No. NPOs	Proportion of Sample	Total Projected No. NPOs	
Don't Know	1.30%	189	1.37%	271	460
In process	9.09%	1,324	6.77%	1,337	2,661
No	27.27%	3,972	68.79%	13,585	17,557
Yes	62.34%	9,079	23.06%	4,554	13,633

From the projections based on the survey results, one may assume that 13 172 NPOs have already registered with SARS, and a further 2 525 NPOs are in the process of registration.

6.2.2 Nature of Benefit

A second issue is that of the nature of benefit accruing to NPOs. Many NPOs have indicated that the benefits that have accrued to them from registration with SARS are not restricted to tax benefit alone. Additional benefits such as increased funds, less tax paid, and an impetus for improved governance are some of the additional benefits identified.

The following table summarizes those benefits identified by those NPOs *who are registered with SARS*, and whose responses are organized according to DSD Typologies 1 and 2 (see Section 5.2).

Table 17: Nature of Benefit

Benefit	Typology 1		Typology 2		Total Projected No. NPOs
	Proportion of Sample	Total Projected No. NPOs	Proportion of Sample	Total Projected No. NPOs	
Increased resource base	22.73%	2,064	8.83%	402	2,466
Less tax paid	25.32%	2,299	5.69%	259	2,558
More corporate funding	4.55%	413	1.18%	54	467
Governance framework	0.65%	59	0.10%	5	64
Don't Know	9.09%	825	5.69%	259	1,084
No benefit yet	6.49%	589	4.71%	214	804
Not applicable	31.17%	2,830	73.80%	3,361	6,191
Total	100%	9079	100%	4,554	13,633

From the extrapolation of the survey results to the number of NPOs registered with SARS, we can identify that 2 466 NPOs would have increased their resource base as a result of registration, while 2 558 NPOs would have paid less tax as a result of registration. A relatively small number – 467 – of NPOs would have received more corporate funding as a result of registration.

6.2.3 Timeframe

Of consideration to the calculation of net benefit to NPOs is the timeframe for the accumulation of benefit. Given that the enactment of the legislation only became applicable in 2001 tax year, and the delays in registration with SARS, it is unlikely that benefits accumulated to NPOs prior to the 2003 tax year. In this instance the study assumes that the total net benefit accruing to NPOs would therefore be only for one tax year (2003).

6.2.4 Scale of Benefit to NPOs

As indicated by the typology, the two categories of the typology will experience different degree of actual benefit from registration with SARS. The survey results provided some indication of the scale of benefit accruing to NPOs according to various ranges, outlined in the table below.

Table 18: Scale of Benefit

Benefit (SAR)	Typology 1		Typology 2		Total Projected No. NPOs
	Proportion of Sample	Total Projected No. NPOs	Proportion of Sample	Total Projected No. NPOs	
0-R12 000	24.21%	2,198	26.81%	1,221	3,419
R12 001 –R 24 000	6.32%	573	2.55%	116	690
R24 001-R36 000	3.16%	287	0.43%	19	306
R36 000-R48 000	3.16%	287	1.28%	58	345
R48 000 +	1.05%	96	1.28%	58	154
Don't know	52.63%	4,778	56.60%	2,577	7,356
Not yet	6.32%	573	10.21%	465	1,038
Refused	3.16%	287	0.85%	39	325
Total	100.00%	9,079	100.00%	4,554	13,633

From the projected scale of benefit summarized in Table 18, we can draw the following analysis with regard to direct benefits accruing to NPOs from registration with SARS:

- 3 419 NPOs have received benefit of between R0-R12 000
- 690 NPOs have received benefit of between R12 000 – R24 000
- 306 NPOs have received benefit of between R24 000 – R36 000
- 345 NPOs have received benefit of between R36 000 – R48 000

- 154 NPOs have received benefit of above R48 000

6.3 Net Benefit for NPOs

The survey indicated that 19% of NPOs registered with SARS had received actual benefit in the form of reduced tax payable. Extrapolated to the full population, this represents a total figure of 2588 NPOs who had received tax benefits. Based on the analysis of financial statements, and the extrapolation of average benefits received for each revenue category of NPOs registered with SARS, and who indicated that they *had received a tax benefit*, the following net benefit projections can be made.

Table 19: Net Benefit to NPOs To Date

NPO Revenue Category	%	No. of NPOs	Ave. Amount of Benefit **	Total Benefit Amount
R0-R250 000	49.48%	1 281	R2 193.00	R2 808 486.00
R250 000 – R1 000 000	26.80%	694	R12 994.00	R9 013 817.00
R1 000 000+	22.69%	587	R106 870.00	R62 729 384.00
Total	99%*	2 561		R74 551 688.00

* Makes allowance for a 1% refusal rate experienced in the survey

** Based on analysis of sample financial statements

As Table 19 indicates, the total net benefit to NPOs projected to date is R74 551 688.00. It is also clear that the majority of benefit accrues to NPOs with annual revenue in excess of R1 million.

Given that the number of NPOs that are currently registered is estimated at 13 633, and that they have yet to receive benefit, it is likely that these organizations will experience some tax benefit in the 2004 tax year. Based on this assumption, the following projection can be estimated for benefits accruing to those already registered.

Table 20: Expected Net Benefit to NPOs in 2004

NPO Revenue Category	%	No. of NPOs	Ave. Amount of Benefit **	Total Benefit Amount
R0-R250 000	49.48%	6 746	R2 193.00	R14 794 475.00
R250 000 – R1 000 000	26.80%	3 654	R12 994.00	R18 262 598.00
R1 000 000+	22.69%	3 092	R106 870.00	R90 121 157.00
Total	99%*	13 492		R123 178 230.00

* Makes allowance for a 1% refusal rate experienced in the survey

** Based on analysis of sample financial statements

As Table 20 indicates, the estimated expected benefit for the 13 633 NPOs in the coming financial cycle (2004) will be in the region of R123 178 230.

If further projections are made to the entire population of NPOs in this study (at 34 313 NPOs), an estimate can be calculated based on an assumption that 95% of this population (32 646 NPOs) are eligible for Schedule 1 status (see Table 14). The total potential benefit, if all eligible NPOs are registered and receive benefit, is estimated at R940 422 888 based on Table 21.

Table 21: Total Potential Annual Net Benefit to SARS Registered NPOs

NPO Revenue Category	%	No. of NPOs	Ave. Amount of Benefit **	Total Benefit Amount
R0-R250 000	49.48%	16 155	R2 193.00	R35 427 304.00
R250 000 – R1 000 000	26.80%	8 750	R12 994.00	R113 703 662.00
R1 000 000+	22.69%	7 404	R106 870.00	R791 291 922.00
Total	99%*	32 646***		R940 422 888.00

* Makes allowance for a 1% refusal rate experienced in the survey

** Based on analysis of sample financial statements

*** Discounts 1667 NPOs not eligible for tax benefit

6.4 Calculating Benefit for Donors

Apart from the obvious benefits of greater accountability for funding, enhanced rigor of financial management and the increased assurance of the legal nature of the activities of NPOs, it is presumed that donors also have received some benefit from the process of registration of NPOs with SARS. However, this benefit is extremely difficult to quantify given the scarcity of data from CSI donors, and from SARS. The limited survey of CSIs in this study has indicated that the benefits have been minimal, and of such a scale as to have warranted little attention by CSI funds.

SARS have currently approved and registered 613 applications from NPOs for Schedule 2 status, which will provide the donors of these NPOs with tax exemption for a portion of the donations provided to these NPOs. In the face of a total formalized NPO population of 34 313 organizations for this study, the number of Schedule 2 registrations represents 1.7% of the total number of NPOs.

7 CONCLUSIONS

The survey has indicated clearly that there are two categories of NPOs enjoying the benefits of the tax reform legislation. The first are NGOs based in the urban areas, operating at the provincial and national levels, registered as section 21 companies and members of networks or coalitions, are more likely to be aware of the new tax regulations, more likely to be registered with SARS, more likely to have received benefits from their registration – and if they have received benefits, more likely to have received large ones – and more likely to have received increased funding. This is confirmed by the projection of net benefit, which has found that NPOs in this category, with annual revenue in excess of R1 million are the primary beneficiaries of the benefits accruing to NPOs to date.

Conversely, the study has found that organizations that define themselves as CBOs, organizations working in the rural areas, organizations based at community level, organizations registered only as NPOs, and organizations that are not affiliated with a network, are less likely to be aware of the new tax regulations, less likely to be registered with SARS, less likely to have received benefits from their registration, and if they have received benefits, less likely to have received large ones, and less likely to have received increased funding.

It has become increasingly clear in the implementation of this research that the timing of the study has resulted in a quantification of benefit at a very limited scale. In particular, the actual benefits accruing to NPOs has not been felt to a great degree at this point, largely due to a limited level of registration, and that the process is at an initial stage of development. There are a number of factors that have contributed to this situation:

- ❑ *The limited level of awareness* of the tax legislation by NPOs generally is retarding the rate of registration, although there are indications that the registrations are increasing as awareness is growing. It is clear that many NPOs remain unaware of the potential benefits of registration.
- ❑ The relatively *onerous process of registration with SARS*, coupled with resistance factors is also retarding the rate of registration, and hence benefit. Many NPOs simply do not possess the technical capacity to register.
- ❑ The *slow rate of registration by SARS* is retarding the accrual of benefit to NPOs. Anecdotal evidence from SARS indicates that it is well behind targets for registration of NPOs, and that the average duration of the registration process is currently 18 months. This clearly indicates that many NPOs will not have experienced benefit purely by virtue of being in the registration “pipeline”.

- The *lack of systematic coordination of information and registration* between SARS, the NPO Directorate, and the Registrar of Companies (DTI) is creating a climate of confusion for NPOs, further hampering efforts to enhance NPO registration in the NPO database, and with SARS.

The study reflects an overall picture of the registered non-profit sector in South Africa, and the benefits flowing from tax legislation introduced in 2000. This is a short period in which the true net benefit can be calculated. However, this study has also reflected that the governmental institutional arrangements do currently not promote inter-governmental relations in supporting and benefiting NPOs to derive maximum benefits of the legislation. While the findings of this study do provide useful recommendations the absence of information from SARS has hampered the calculation of the net benefit to NPOs in real terms.

8 RECOMMENDATIONS

There are a number of recommendations emerging from the process and findings of the study, and these include the following:

- (i) Limited awareness of the tax legislation is a significant barrier to less sophisticated, smaller NPOs where the positive impact of the benefits of registration would be relatively high. It is recommended that greater effort be directed to building awareness of this sector in order to build an impetus for registration.
- (ii) The registration of NPOs on the NPO database has severe limitations, which require a review of the role and management of the database. The current information contained on the database is of little value in a monitoring system, and there seem to be a low level of registration amongst Section 21 companies – who represent a significant proportion of the sophisticated NPOs of the country.
- (iii) The NPO Directorate is not relating systematically to the Registrar of Companies, and SARS. A highly integrated system of cross-referral and monitoring needs to be established if NPO registration and facilitation of benefit is to be enhanced.
- (iv) The process of registration at SARS is too long and cumbersome, and needs to be made much more efficient. Many NPOs have been waiting for periods of over 18 months for their registration to be finalized. This places unfair pressure on NPOs, and negates the positive effects of registration. A more efficient system is required, which has adequate dedicated capacity.
- (v) An integrated information management and monitoring system is urgently required to provide sufficient data for tracking NPO developments with regard to tax and benefit. This will require integration of databases between the agencies regulating the benefits accruing to NPOs.
- (vi) The conclusion drawn from the timing analysis is that the extent of benefit is likely to grow in the forthcoming financial years, and therefore it is strongly recommended that the impact of the 2000 NPO Tax Amendment Act is monitored in an ongoing manner, and that a similar net benefit study be repeated within the next two years.

ANNEXURE 1: BIBLIOGRAPHY

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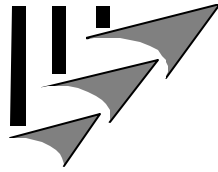
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ANNEXURE 2 ADDITIONAL INTERVIEWS

Name	Organisation
Gail Smith	Director, NPO Directorate, Department of Social Development
Herman Bosman	NPO Directorate, Department of Social Development
Dirk van Seventer	Macro-Economist, TIPS
Mark Kingon	SARS
Alfred Kowo	Head, Tax Exemption Unit, SARS

ANNEXURE 3 SURVEY RESEARCH INSTRUMENT



**Umhlaba
Development
Services**

NPO STUDY

Hello, my name is I work for consultancy group by the name of Umhlaba Development Services. We are undertaking a research study on how NPO taxation laws benefit NPOs in South Africa. The questionnaire will only take approximately 15 minutes and we would appreciate your opinion. Everything you tell me will be held in the strictest confidence, with your answers being put together with everyone else's.

Name of Interviewer							
Name of Respondent							
Title in Organisation							
Phone numbers of respondent: Home	Telephone			Fax		Cell	

FILTER QUESTIONS

Only those respondents that qualify according to the following filter questions should be interviewed

Q1 Please could you tell me if you are registered with SARS

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Don't know	<input type="checkbox"/>
Yes	No			

If NO: Close interview

Q2 **IF YES or D/K:** Are you registered in Ward 107, that is the area shown on this map?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Don't know	<input type="checkbox"/>
Yes	No			

If NO: Close interview

Q3 IF YES or D/K: Have you ever voted?

Yes	No	Don't know
-----	----	------------

IF YES : Did you vote in the area I showed you on the map or did you vote

Q4 elsewhere?

In this area	Elsewhere
--------------	-----------

If the respondent is registered in the area or has voted in the area continue interview

otherwise close interview

RESOURCES

Q5 Did you vote in the 1999 and/or 2000 municipal elections in Ward 107 that is the area I showed you on+B126 the map?

Q5b

What

were

the

main

reasons

you did

not IF NOT TO EITHER ASK: What were the reasons you did not vote?

Do Not Prompt or read out answers, ask for both 1999 and 2000

	YES	NO
1999		
2000		

Q6 Are you aware that there is a municipal by-election

	1999	2000
I was not registered		
I did not know about the election		
I was not in Johannesburg		
I did not have transport to get to the polling station		
I do not know how		

in
Ward 107 in April this
year?

YES		NO	
-----	--	----	--

(if no proceed to Q10)

to vote		
No one worth voting for		
Did not know about the elections		
Other (specify)		

Q7 IF YES: how did you hear about this by-election?

Do not read out

answers

Newspaper	
Radio	
Posters in the street	
Ward councillor	
Political party branch meeting	
Church group	
Burial society	
Friends	
Other (specify)	

If you heard about it from the radio
Q8 which radio
station did you hear about it
from?

--

If you heard about it from the
Q9 newspaper which
paper did you hear
about it from?

Read out

answers

Sowetan	Sunday Times	
The Star	Rapport	
North Eastern Tribune	Other	

Q10 Ask Everyone

How likely are you to vote in the April by-election?

Read out answers to respondent

Very likely	Likely
Not very likely	Not at all likely

If you are not going to vote what
Q11 are the reasons?

Do not read out

answers

I do not have transport to get to the polling station	
---	--

I do not know where to go and vote	
I do not know who to vote for	
I do not know who is standing for the elections	
I do not have time due to work restrictions	
I do not have anyone to leave my children with, while I vote	
Other (specify)	

CAPACITY

Q12 Do you know what the name of the ward councillor who won the last election for this area is?

Yes ☐ No ☐ If no skip to Q15

IF YES: what was the **Q13** councillor's name

--

Q14 Which of the following best described the ward councillor in your area? You can give as many or as few answers as you like?

Read out answers

Often seen	
Sometimes seen	
Seldom seen	
Active in the community	
Easy to meet and talk to	

What is the role of the ward **Q15** councillor?

--

Do you know what party the ward **Q16** councillor that

A good communicator	
---------------------	--

Cares about the community	
---------------------------	--

Did not look after the community	
----------------------------------	--

won the last election
stood for

--

Q17 Did your ward councillor give you the information that you need?

Yes		No	
-----	--	----	--

If you needed to contact your ward councillor do you know how to get in touch with him?

Yes		No	
-----	--	----	--

PERCEPTIONS OF SERVICES PROVIDED

Now I would like to talk to you about the services in your area

Q19 I am now going to read you a number of items

please could you tell me how satisfied

you are with Governments delivery of each

of these services in your area, if 1 means

very dissatisfied and five means very satisfied.

Electricity	Water
Safety	Housing
Pensions & child support grants	Job creation
Schooling	Transport
Health services	Toilets

Q20 which I will read to

you again please could you tell me which are the three most important for the government to improve, with 1 being the most important, 2 the 2nd most important and 3 being the 3rd most important.

Electricity	Water	
Safety	Housing	
Pension & child support grants	Job creation	
Schooling	Transport	
Health services		

Read out all services before respondent answers

ANNEXURE 4 QUESTIONNAIRE - CORPORATE SECTOR

Identifying Details

Company Name:
Name of Respondents:
Position in the Company:
Details: Telephone: Fax: e-mail:

Awareness of NPO legislation

1. Is the Company aware of the amendments to the Tax Legislation for NPOs as well as the corporate sector?
2. How did you become aware of this legislation? _____

3. What are the implications of this legislation for the company?

Changes Real Or Perceived

4.. Did the company's funding patterns change as a direct result of this legislation?

5. If yes, how?

6. Can you describe the actual changes that the company had to make as a direct result of this legislation. E.g. policy development, systems and procedures.
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7. Who, in your opinion are the beneficiaries of these changes.

Effects On Target Group

8. How have the target groups/beneficiaries of your social responsibility programme adjusted to these changes?

9. Have you observed an increase or decrease in the application for funding since the introduction of the legislation.

8. Is there a difference in the categories or types of NGO's applying?

Capacity Building of the NPO Sector

10. Has your company played a role in either awareness creation or information dissemination to the NPO sector with regard to the implications /benefits of this legislation?

11. If yes, how have you communicated these to the NPO sector?

Opinion Of the Law

12. Has SARS or DSD engaged you on this legislation? If yes, when did this take place.

13. What is your opinion of this law? Does it create the enabling environment for the corporate and NGO sector to give and receive funds?

ANNEXURE 5 SELECTED CROSS TABULATION TABLES